



WEEKLY ECONOMIC DIGEST

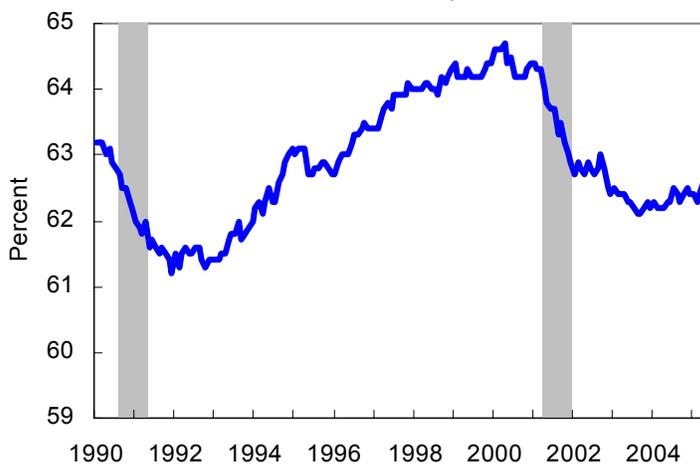


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

May 10, 2005

Strong Job Growth Surprises but the Unemployment Rate Stays the Same

Civilian Employment
Fraction of Civilian Population



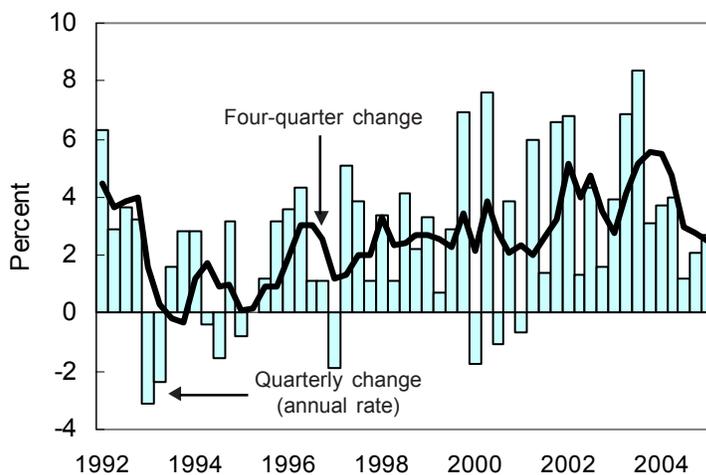
Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Payroll employment growth exceeded expectations.** Payroll employment at nonfarm establishments grew by 247,000 jobs in April, well above the 175,000 job gain that financial markets had expected. The Labor Department also revised up its estimate of job gains to 300,000 for February and 146,000 for March. April job gains were concentrated in private service-providing industries (up 211,000 jobs). Construction also posted a gain of 47,000 jobs. Manufacturing, however, continued to show weakness, as factory payrolls fell by 6,000 jobs, marking the seventh decline in the last eight months.

- **The unemployment rate was unchanged.** The civilian unemployment rate remained at 5.2 percent in April. Both the fraction of the population in the labor force (those working or looking for work) and civilian employment as a fraction of the population edged up by 0.2 percentage point. Nevertheless, the labor force participation rate of 66.0 percent in April was 1.2 percentage points lower than the rate at the start of the recession in March 2001, and the employment-population ratio of 62.6 percent was 1.7 percentage points lower than it was in March 2001 (see top chart).

Growth of Nonfarm Business Productivity



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Productivity growth picked up in the first quarter.** Output per hour in nonfarm businesses grew at a 2.6 percent annual rate in the first quarter of the year, up from a 1.6 percent average annual rate over the second half of last year (see bottom chart). That first-quarter acceleration in productivity reflected a slight pickup in the rate of output growth for nonfarm businesses but also a sizeable deceleration in hours worked in the first quarter. The first-quarter growth put productivity 2.5 percent above its level a year earlier.

The Economy at a Glance	Apr	Mar	Feb	Jan	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.1	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)	n.a.	3.7	2.4	0	3.6	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)	n.a.	79.4	79.3	79.2	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.2	5.2	5.4	5.2	5.3	5.4	5.4	5.6	5.5	6.0
Housing Starts (thousands)	n.a.	1837	2229	2189	2085	1975	1969	1920	1952	1853
Real Disposable Personal Income (% growth)	n.a.	0.1	1.5	4.7 [#]	4.3 [#]	3.5 [#]	2.9	2.8	3.2 [#]	2.3
Retail Sales (% growth)*	n.a.	3.2	6.0	0.7	5.4	10.2	6.2	7.0	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.4	0.5	0.8	0.6	0.5 [#]	0.7	1.3	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	7.4	4.9	1.2	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	4.9	3.7	2.4	2.6	2.3	1.7	2.6	1.8	1.5
Compensation per hour (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per hour (% growth)	—	—	—	—	2.6	2.1	1.3	3.9	4.1	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.78	2.74	2.54	2.33	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.34	4.50	4.17	4.22	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	2.79	2.63	2.50	2.28	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10283	10682	10724	10540	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **U.S. International Trade in Goods and Services: March 2005** [Wednesday, May 11]
- **Monthly Treasury Statement of Receipts and Outlays of the U.S. Government: April 2005** [Release: Wednesday, May 11]
- **Advance Monthly Sales for Retail and Food Services: April 2005** [Release: Thursday, May 12]
- **Manufacturing and Trade Inventories and Sales: March 2005** [Release: Friday, May 13]
- **U.S. Import and Export Price Indexes: April 2005** [Release: Friday, May 13]